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KNOW YOUR CUSTOMER POLICY STATEMENT

CONTENTS

INTRODUCTION	5
INTERNATIONAL EFFORTS TO COMBAT MONEY LAUNDERING	6
Stages of Laundering	6
Liability of Employees	6
OBJECTIVES OF THE KNOW YOUR CUSTOMER POLICY	7
Identification Procedures	7
Monitoring Procedures	7
Training Procedures	7
CUSTOMER CATEGORIES	8
OTHER CUSTOMER CATEGORIES	8
PART I - ACCOUNT OPENING REQUIREMENTS	9
Personal Accounts	9
Business Accounts	12
FOREIGN CORRESPONDENT BANKS	14
DOMESTIC BANKS	15
INVESTMENT ADVISORS AND FUNDS	15
CUSTOMER VISITATION POLICY	15a
Introduction to Two Officers	15a
Standards	15a
Reports of Visits	15a
DOCUMENTATION COMPLETION	16
Summary Reports	16
Documentation Exceptions	16
Review of Existing Accounts	16
PART II - INTERNAL MONITORING	17
Know Your Customer Committee	17
Monitoring Accounts	17
SUSPICIOUS TRANSACTIONS EXAMPLES	19
Use of Cash Transactions	19
Use of Bank Accounts	20
Use of Investment Related Transactions	21
International Activity	21
Use of Financial Institution Employees and Agents	22
Secured and Unsecured Lending	22
Legal Process Served on Accounts	23
CASH TRANSACTIONS	24
Approval of Cash Transactions	24
Monthly Reports	25
Systems	25
CHECK TRANSACTIONS	26
Monitoring Negotiable Instruments	26
WIRE TRANSACTIONS	27
Monitoring Wire Transfers	27

CONTENTS

COLLATERALIZED LOANS	28
REPRESENTATIVE OFFICES	29
FLASH ALERTS	29
COMPLIANCE WITH LOCAL REGULATIONS/AUTHORITIES	29
MAINTENANCE OF RECORDS	30
NON-DISCLOSURE	30
INTERNAL AUDIT	30
PART III - TRAINING	30
PART IV EXCEPTIONS	30
CERTIFICATION	32

INTRODUCTION

Report Suspicious Activity

Commitment to Compliance

Compliance Duties of Each Employee

Republic New York Corporation (Republic) has built a solid reputation as a safe and strong banking institution, following conservative banking principles and a fundamental goal of protecting depositors' funds. However, there can be no safety of funds without the safety of the institution itself. In charting Republic's course into the twenty-first century, the board of directors and senior management are dedicated to maintaining Republic's reputation as a premier international banking organization. To this end, we are as concerned about compliance with laws and regulations as we are about profits.

In today's world, there is an increasing international dimension of organized criminal activity, which threatens financial institutions. Fraudulent schemes, theft, counterfeiting and most particularly, drug dealing and money laundering, weaken the reputation and standing of a financial institution. All efforts must be made to detect and thwart suspicious activity at the earliest stages. Suspicious activity, when discovered, must be reported to senior management, legal counsel, and compliance for appropriate action.

Republic is strongly committed to preventing the use of its worldwide operations for criminal purposes and to cooperating with appropriate authorities in efforts to stop any person from misusing the banking system. The best way to fulfill this commitment and ensure the safety of the institution is to know our customers, monitor transactions and train all personnel.

Republic has established a strong compliance program that has been approved by the board of directors. This program is to be implemented at all levels and subject to periodic reviews. The board of directors and senior management will be kept abreast of compliance efforts through regular reports by the audit, compliance and legal departments.

Compliance expectations are to be included in the job descriptions and performance standards of tellers, branch managers, platform employees, lending, account and marketing officers, traders, representative office employees, consultants, operations personnel and management.

This manual is designed to formalize the Know Your Customer policy and procedures for preventing the use of our banks as vehicles for money laundering and for the other illegal activities listed above. Compliance with these corporate policies and procedures is a condition of employment. These practices are mandatory.

Failure to adhere to these principles may result in disciplinary action, diminished compensation or termination of employment.

INTERNATIONAL EFFORTS TO COMBAT MONEY LAUNDERING

Stages of Laundering

Liability of Employees

The issue of how to prevent individuals from laundering the proceeds of illegal activities through the financial system has attracted substantial attention from legislative authorities, law enforcement agencies, banking regulators and the press in a number of countries.

Throughout the world, nations have enacted laws and regulations which criminalize the laundering of money derived from drug trafficking and other illegal activities. In some countries, legislation has been enacted whereby governments may seize and forfeit assets and property which represent the proceeds of these activities. Numerous regulatory and enforcement measures, as well as reporting requirements, have been implemented or proposed in an effort to limit money laundering. Moreover, the international press has publicized the fact that vast amounts of money emanating from drug trafficking has infiltrated the banking system and has criticized financial institutions for their failure to detect and prevent criminal activity.

In response to the focus of the international community, money launderers have become more and more sophisticated in their techniques. Consequently, it is critical for us to understand changing regulatory requirements and sophisticated money laundering schemes as well as to implement effective procedures to know our customers and monitor their transactions. Basically, the money laundering process involves three stages:

- **Placement**—the physical disposal of cash proceeds derived from illegal activity
- **Layering**—separating illicit proceeds from their source by creating complex layers of financial transactions designed to hamper the audit trail, disguise the origin of such funds and provide anonymity to their owners
- **Integration**—placing the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing to be legitimate business funds.

Having identified these stages of the money laundering process, law enforcement agencies and bank regulators require financial institutions to adopt procedures to guard against and, in some countries, report suspicious transactions that occur at each stage.

Employees and the bank itself are subject to criminal and civil penalties, which include imprisonment, fines, forfeiture of assets, and the revocation of the bank's charter if the bank fails to develop and adhere to policies to know its customers and avoid doing business with individuals involved in illegal activities.

Every employee must be mindful that such criminal liability may be imposed on the individual and the bank if either is willfully blind to suspicious activity or should have known that activity was suspicious. These standards are very strict and may result in both the employee and the bank being fined and/or prosecuted.

This manual contains Republic's policy and procedures, which when followed, will enable us to be duly diligent in preventing the use of our institution for criminal purposes.

OBJECTIVES OF THE KNOW YOUR CUSTOMER POLICY

Identification Procedures

The Know Your Customer policy increases the likelihood that the bank is in compliance with established laws and regulations and decreases the likelihood that the bank will become a victim of fraud or illegal activities. Moreover, this policy protects the good name of the bank without interfering with good customer relationships.

First, comprehensive procedures for opening accounts, establishing loan and other business relationships, and conducting transactions with non-account holders must be developed and implemented in each Republic location. Inherent in the procedures is the principle that Republic know the true identity of all customers, including beneficial owners, requesting any of the bank's services. Identification must be verified to prevent establishment of accounts for fictitious beneficiaries.

In addition to knowing the identity of the customer, it is of paramount importance to know the customer's business or professional activities, sources of the customer's income, wealth or assets, and the particular source of the funds which are the subject of transactions at the bank. An additional objective is to enable the financial institution to predict with relative certainty the types of transactions normally expected to be engaged in by a customer.

Monitoring Procedures

Second, internal systems must be in place for monitoring transactions which are inconsistent with each customer's transaction profile.

Training Procedures

Third, educational programs should be held annually and on an ongoing basis to review the practices of Republic, the laws of the location, and the transactions of customers that may warrant investigation.

CUSTOMER CATEGORIES

Please note that banks are the only customers approved for banknote transactions. Any non-bank banknote customer must have the approval of head office management.

Approval of head office management is defined as the unanimous consent to a written submission by the division head, chairman of the board, and chairperson of the executive Know Your Customer committee in New York.

The following customers will not be accepted:

- Customers whose character, integrity, or honesty are questionable.
- Customers whose activities make it impossible to verify the legitimacy of the activities or the funds.
- Customers who refuse to provide required information or documentation.
- Customers who are casinos, gambling or wagering entities.
- Cambios, check cashiers, money changers and money transmitters.
- Accounts managed by law firms, accountants or brokerage houses for which the identity of the true beneficial owner is not known.
- Customers who are government officials, who open accounts in jurisdictions outside their home country.

The following customers will only be accepted with the authorization of head office management:

- Customers who deal in production or distribution of arms and other military products.
- Customers who are principals of cambios, check cashing services, and money transmitter services.
- Existing customers who become government officials.

Any exception to this policy must have the explicit approval of head office management.

OTHER CUSTOMER CATEGORIES

Transactions engaged in, by, or for the benefit of countries sanctioned by the U.S. and their Specially Designated Nationals, as well as Specially Designated Terrorists and Specially Designated Narcotics Traffickers as defined by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) are prohibited.

PART I - ACCOUNT OPENING REQUIREMENTS

Personal Accounts

The account opening process is a critical stage of the Know Your Customer policy. No account should be opened without obtaining proper identification information, an understanding of the source of the customer's income, wealth, and legitimacy of his/her business activity, as well as a description of the initial deposit and the expected account activity. All identification information must be verified. Verification is the responsibility of the customer contact officer, representative officer or consultant. All applications must be signed by the officer opening the account and reviewed by the operations department.

No exceptions to account opening procedures will be permitted unless fully documented and approved by the location's senior manager. For locations having various departments, the division, department, or group head must approve any exception. For domestic retail banking, the branch manager must approve any exception. Documentation of the exceptions must be maintained at each location and will be subject to periodic review by audit, compliance and legal departments.

The following Know Your Customer profile information is required for each individual on all accounts (including retail CDs) and for each individual on whose behalf the account is opened.

A). Identification:

1. - Name and signature

a) Numbered or designated name accounts will only be accepted in those locations where senior management has approved the practice and head office has concurred.

b) The identity of the account holder and all identification requirements must be obtained. If the account holder is opening the account on behalf of another individual, the identity of the beneficial owner of the funds must be obtained.

2. - Date of birth

3. - Place of birth (if available)

4. - Permanent residence and mailing address of account holder and beneficial owner, if different.

(Post office boxes and third party addresses are unacceptable as a permanent residence except in those jurisdictions where post office boxes are the only address possible.)

5. —Home telephone number and if available fax and telex numbers

Any exception to the identification requirements that apply to beneficial owners must be approved by the senior manager of the location and have the unanimous consent to a written submission by the chairman of the board and the chairperson of the executive Know Your Customer committee.

B) Verification of identity, nationality, and residence:

Waivers:

Citizens or residents of the United States establishing accounts at Republic locations outside the United States must sign a form consenting to the waiver of applicable bank secrecy laws.

Tax Matters:

Forms required for tax purposes must be filed according to the laws of the United States and local statutes.

1. - At least one of the following identification documents must be reviewed for authenticity and expiration and, except for personal retail banking relationships, a copy must be retained in the file:

—valid passport (check current status of visa when appropriate)

—valid official identification card with photograph

—valid driver's license with photograph

2. - Verification of passport or official identification card with photograph is mandatory for all non-residents of the country in which the booking unit is located.

3. - A Republic officer or representative must certify on the copy of the document that he/she has seen the original. This is especially critical when the booking unit has not seen the customer or the document but relies on the representative office or affiliate to send a copy to the booking unit.

4. - For domestic retail banking relationships, the Republic officer must certify on the signature card that he/she has seen the original.

5. - Verification of beneficial owners identification is required for accounts in the name of personal holding companies.

C) Customer's Business and Transaction Activity:

1. - Nature of customer's business: give name and address of place of business (where applicable), customer's position or rank, office address and telephone number.

2. - Source of income or wealth if not listed above

3. - Source and description of account opening funds should be indicated when known. When the account opening deposit is a cash transaction, the source of the funds must be indicated.

4. - Description of expected account activity (except for personal retail banking relationships)

D) References:

Republic requires references for all new accounts before the account is opened.

For private banking customers, the referring party should be an existing customer, an officer of the booking unit, an affiliate unit, a representative office, or well respected third party, cleared by local senior management.

Form of Account:

- *Form of account must be clearly indicated.*
- *No omnibus account may be maintained with sub-accounts for the benefit of a third party unless the beneficial owner of the sub-account is listed with the booking unit.*
- *Trust accounts must comply with the laws of the local jurisdiction and Republic's procedures and be reviewed by the legal or relevant trust department.*
- *Powers of Attorney must be executed in compliance with the local jurisdiction and Republic employees must adhere to Republic's standards of conduct and procedures.*

The booking unit must obtain additional references if the referring party does not know the prospective customer well or the referring party is not well-known to Republic.

The information must be reduced to writing by the account officer and include the following information:

1. — Name of referring party
2. — Description of the prospective customer's relationship to the referring party
3. — Statement of how long the referring party has known the customer
4. — The referring party's description of the customer's occupation or business
5. — Description of the source of wealth, character, honesty and integrity of the account holder and beneficial owner

If an officer of the booking unit, affiliate, branch, subsidiary, or representative office is the referring party, it must provide a written referral which includes:

1. — The above information
2. — Sufficient information for the booking unit to complete a customer profile and monitor account activity. This should include providing copies of know your customer profiles and other supporting documentation.
3. — Certification that identification has been seen and copied. A copy of the identification should be provided.
4. — A description of the customer's current relationship with the affiliate or representative offices
5. — The purpose of the new account
6. — A statement of recommendation
7. — The signature of an authorized individual

For domestic retail banking customers, a bank reference or reference as described above is required. An exception to obtaining a reference letter is made for customers who only have CDs aggregating less than \$100,000. For retail customers wishing to establish CDs over \$100,000, prior approval of the branch manager is required. Subsequently, bank references should be obtained.

Business Accounts

Principals of businesses should provide evidence of legal status (e.g. sole proprietorship, partnership, incorporation or association) when opening a business account.

For personal holding companies, the names and addresses of beneficial owners and information about the source of the beneficial owners' wealth must be obtained. Identification documents of all beneficial owners of personal holding companies must be verified. Any exception to this requirement must be approved by the senior manager of the location and have the unanimous consent to a written submission by the chairman of the board and the chairperson of the executive know-your-customer committee.

In the case of partnerships, the information required for business accounts is required for the partnership, and information required for personal accounts is required for the managing partner(s) and general partners having at least a 20-percent interest.

A) Identification:

For corporate prospects which are not publicly traded, the following information is required:

1. Name and address of main office and relevant location(s)
2. Telephone number
3. Fax and telex numbers where applicable
4. Names and titles of officers
5. Names of beneficial owners
6. Certified articles of incorporation and by-laws (including all amendments). Certification must be by an appropriate government authority.
7. Corporate resolution (Republic's form with corporate seal where applicable), partnership agreement or limited liability banking agreement.
8. Certificate of good standing (where applicable) of recent vintage from jurisdiction of incorporation and where principal office(s) located
9. Extract from commercial registry of recent vintage (where applicable)
10. Annual report and/or financial statement (where available)

For corporate prospects which are publicly traded, the following information is required:

1. Name and address of main office and relevant location(s)
2. Telephone number
3. Fax and telex numbers where applicable

4. Corporate resolution (Republic's form with corporate seal where applicable)
5. Annual financial statement

B) Customer's Business Activity:

1. - Description of customer's business activity. For example, information on business type, date started, size of business, products sold or services provided and type of customers
2. - Current banking relationships/customer contact personnel at other banks if available
3. - Description of expected account activity. If the customer expects

to have a transaction account having significant cash or wire transfer activity, additional information must be obtained: for example, more detailed information on annual sales and revenues, information on major suppliers or customers to or from whom wire transfers or letters of credit are to be transacted and information on foreign jurisdictions with whom customer expects to transact business.

C) References:

For private banking corporate customers, the referring party should be an existing customer, an officer of the booking unit, an affiliate unit, a representative office, or well respected third party, cleared by local senior management.

The information must be reduced to writing by the account officer and include the following information:

The booking unit must obtain additional references if the referring party does not know the prospect well or the referring party is not well-known to Republic.

1. — Name of referring party
2. — Description of the prospective customer's relationship to the referring party
3. — Statement of how long the referring party has known the customer
4. — The referring party's description of the customer's occupation or business.
5. — Description of the source of wealth, character, honesty and integrity of the account holder and beneficial owner.

If an officer of the booking unit, affiliate, branch subsidiary, or representative office is the referring party, it must provide a written referral which includes:

1. — The above information
2. — Sufficient information for the booking unit to complete a customer profile and monitor account activity. This should include providing copies of know your customer profiles and other supporting documentation.
3. — Certification that identification has been seen and copied. A copy of the identification should be provided.
4. — A description of the customer's current relationship with the affiliate or representative offices
5. — The purpose of the new account
6. — A statement of recommendation
7. — The signature of an authorized individual

For domestic retail banking customers, a bank reference or reference as described above is required. An exception to obtaining a reference letter is made for customers who only have CDs aggregating less than \$100,000. For retail customers wishing to establish CDs over \$100,000, prior approval of the branch manager is required. Subsequently, bank references should be obtained.

**FOREIGN
CORRESPONDENT
BANKS**
Identification/
Ownership

References

**Business Activity
Documentation**

Visitation

Activity in correspondent bank accounts has been the focus of congressional and law enforcement inquiry and investigation. Therefore, the following information should be obtained and documented in the EPIC system when establishing and updating accounts for banks which are not regulated by the U.S. or where the primary regulator is not the U.S.:

- Name, address, telephone and fax numbers, telex address, SWIFT address, etc.
- If the bank or its parent is listed on a major stock exchange, list the name of the corporation and the exchange.
- If the bank is owned by a federal or state government, list the country and the government entity through which the bank is owned.
- If the bank is located in a country that is a member of the Financial Action Task Force, list the country.
- Information regarding bank charter and bank regulator.
- Names of principals/large shareholders with a 10% or more ownership interest.
- Names and titles of corporate officers.

The following information should be documented:

- Name of referring party and relationship with Republic.
- Other correspondent banking references and accounts.

Description of current and expected transaction activity.

For banks which are not traded on an exchange:

- List of authorized signatures and/or corporate resolution.
- Articles of incorporation and by-laws and/or banking license.
- Current annual report and/or current financial statement which is no more than two years old.
- For Russia and NIS countries, a copy of the banking license is required.

For banks which are traded on an exchange:

- Current annual report and/or current financial statement which is no more than two years old.
- List of authorized signatures and/or corporate resolution.
- For Russia and NIS countries, a copy of the banking license is required.

An initial visit should be conducted within six months of establishing a new banknote, funds transfer or check clearing relationship. The initial visit should be accelerated if there is a significant increase in client activity or adverse information is received. For banknote clients, subsequent visits should be conducted on an annual basis. For funds transfer or check clearing clients, subsequent visits should be conducted on a bi-annual basis. Subsequent visits should be accelerated when the nature or size of the relationship and/or activity has changed. Any exception to this requirement must be approved by the senior manager of the location and have the unanimous consent to a written submission by the chairman of the board and the chairperson of the executive know your customer committee.

**Management
Assessment/KYC
Description**

**Payable Through
Account**

**DOMESTIC
BANKS**

**Identification/
Ownership**

Business Activity

**INVESTMENT
ADVISORS AND
FUNDS**

Each customer profile should contain an assessment of the ownership and management and a description of the Know Your Customer practices, policies and procedures of the bank.

Use of a foreign correspondent bank's account by its customers will not be permitted without the approval of head office management. This type of arrangement is commonly referred to as a "payable through account." Approval of head office management is defined as the unanimous consent to a written submission by the division head, chairman of the board and chairperson of the executive Know Your Customer committee in New York.

The following procedures should be implemented when establishing and updating accounts for banks and the primary regulator is the U.S.

- Name, address, telephone and fax numbers.
- If the bank or its parent is listed on a major stock exchange, list the name of the corporation and the exchange.
- Date of incorporation, bank's rank in the country and primary regulator.
- Names of principals/large shareholders with a 5% or more ownership interest.
- Names and titles of corporate officers.
- Description of current and expected transaction activity.
- Financial information including current annual report or current annual financial statements.

The following procedures should be implemented when conducting transactions with or on behalf of investment advisors (whether acting on behalf of an individual, group or a fund) and/or funds (including mutual funds, hedge funds, pension funds and the like):

- Prepare Know Your Customer profile for the investment advisor. (KYC profile information for business accounts must be prepared. See pp. 12-13). This should include a description of the KYC procedures employed by the advisor or fund.
- Prepare Know Your Customer profile for any investor having a 20% or greater interest. (KYC profile information for individual or business accounts should be prepared. See pp. 9-13). Any exception to this requirement must be approved by the senior manager of the location and have the unanimous consent to a written submission by the chairman of the board and the chairperson of the executive Know Your Customer committee.
- If a fund is involved, indicate whether the fund is regulated by a government authority. If so, indicate which country or authority regulates the fund.
- If a fund is involved, indicate the size of the fund.
- A description of the purpose of each account and the expected transaction activity should be obtained. The activity should be reviewed periodically.

CUSTOMER VISITATION POLICY

Introduction to Two Officers

Standards

Reports of Visits

Customer visitation is an essential element of the "Know Your Customer" process. Visits provide the best opportunity to verify and update on an ongoing basis the information provided at the time the account was opened. It is especially important to visit customers at their places of business in order to substantiate the type and volume of business activity and income.

It is also essential that certain customers be introduced to and known by at least two officers of Republic. This is especially important when a referring office or representative introduces an account to a booking unit. Customers have a relationship with Republic, not with an individual officer or representative.

Each location must establish standards as to which accounts must be visited or known to at least two officers. For domestic retail branches, standards will be formulated by branch administration. Frequency of visits should be related to the nature of the account. Whenever there is a significant change in the customer's activity, the account must be referred to and reviewed by the appropriate Know Your Customer committee.

The officer(s) who has visited the customer must write, sign and file a report of the visit. This report should be detailed and constructed to enable an independent third party to determine the quality of the officer's diligence. In addition to including information about the client's portfolio performance and satisfaction with services, the report should include discussions with the customer about KYC related factors (e.g., reasons for increase in account volume, change in ownership, change in pattern of transactions, new business ventures, etc.).

DOCUMENTATION COMPLETION

Summary Reports

Responsibility for obtaining documentation lies with the account officer and the department head. Each booking unit must have a document control unit which will be responsible for ensuring that all documentation is properly completed and executed before an account is opened on a permanent basis.

The control unit will prepare monthly summary reports of missing documentation by account officer and circulate such reports to the appropriate account officer(s) and department head(s) and the location's Know Your Customer Committee. All funds will be frozen and no credit or trading facilities will be granted pending completion of documentation except as authorized by the location's senior manager. In jurisdictions where it is not possible to freeze funds, the account should not be opened without complete documentation.

Documentation Exceptions

If a documentation exception involving another Republic unit is outstanding for 90 days, the item should no longer be a matter between account officers. The document control unit for the booking location must provide written notification to the document control unit and/or the senior manager of the referring office. The document control unit or the senior of the referring office will be responsible for expediting the follow-up process.

Review of Existing Accounts

For existing accounts, the document control unit will conduct a review to determine that proper documentation is in the file. Such a review will begin with the larger corporate transaction accounts and continue through the remaining portfolio. The document control unit will prepare periodic management reports on findings and initiate follow-up efforts to obtain missing documentation.

For domestic retail branches, document control lies with branch management and will be subject to review by Branch Administration as well as periodic audits.

No exceptions will be permitted unless fully documented and approved at the time.

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PART II - INTERNAL MONITORING

Know Your Customer Committee

Account officers are responsible for reviewing and monitoring their accounts on an ongoing basis. Supervisors are responsible for developing and implementing criteria to ensure that accounts are being properly monitored.

Additionally, each Republic booking location will establish a Know Your Customer Committee. At a minimum, this committee will be comprised of the senior manager, the senior operations officer, the senior compliance officer, and counsel of the location plus department group heads where applicable. In larger units, it may be necessary to have a senior management policy committee as well as other operating committees that actually review accounts. Branch Administration will establish the Know Your Customer Committee for domestic retail branches.

Each office must designate an individual or individuals with adequate time and authority, who will be responsible for ensuring that proper documentation and know your customer profile information is obtained and maintained. This individual or individuals should also be a member of the Know Your Customer Committee.

The committee will meet at least once a month and more frequently as required. Minutes must be maintained and presented to the location's senior manager and available for review on site by internal audit and head office compliance personnel. Minutes must be distributed to all committee members and signed by the chairperson.

The committee will be responsible for coordinating the development and implementation of local procedures and training to ensure adherence with corporate-wide Know Your Customer requirements and respective local laws. In addition, the committee will be responsible for monitoring the location's compliance with these procedures and reviewing significant or unusual customer activity.

The committee must review the customer database and determine what situations require additional study. For example, the committee should examine:

- prospective new customers making an initial deposit over a threshold amount or requesting transactional activity over a threshold amount,
- accounts with more than "x" number of wire transfers per month or wire transfer activity over a threshold amount,
- accounts with more than "x" number of check transactions per month or check activity over a threshold amount,
- accounts with frequent cash transactions or cash transactions over a threshold amount,
- accounts reflecting a significant increase in activity,
- accounts in which numerous travellers checks, third party checks, money orders, bank checks, cashier checks or internal transfers have been observed,

Monitoring Accounts

- accounts of non-bank financial institutions,
- accounts where activity may not be commensurate with the nature of the business,
- accounts against which a subpoena or other legal process has been served.

Once an account has been identified for review, the committee must determine whether the account will be:

- approved for continuation,
- closed, or
- subject to additional monitoring.

Any decision to close an account for suspicious activity must be reviewed by the location's compliance officer and counsel in order to determine whether reporting to any regulatory or enforcement agency is warranted.

SUSPICIOUS TRANSACTIONS EXAMPLES

Use of Cash Transactions

Listed below are detailed examples of customer activities which may be suspicious. When any employee becomes aware that a transaction from the list below has occurred and raises suspicion, the employee should report the suspicious or unusual activity to the compliance officer and counsel. Thereafter, the account and related relationships should be reviewed by the Know Your Customer Committee.

- Unusually large cash deposit(s) made by an individual or company whose business activities would normally involve checks and other instruments.
- Substantial increases in cash deposits of any individual or business without apparent cause, especially if such deposits are quickly transferred out of the account to a destination not normally associated with the customer.
- Customers who deposit cash by means of numerous deposit slips so that the total of each deposit is unremarkable, but the total of all such deposits is significant.
- Company accounts whose transactions, both deposits and withdrawals, are denominated by cash rather than the forms of debit and credit normally associated with commercial operations (e.g. checks, Letters of Credit, Bills of Exchange, etc.).
- Customers who constantly deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments.
- Customers who seek to exchange large quantities of low denomination currency for those of higher denomination.
- Frequent exchange of cash into other currencies.
- Bank branches that have unusually frequent cash transactions.
- Cash deposits which contain counterfeit notes.
- Customers transferring large sums of money to or from overseas locations with instructions for payment in cash.
- Use of night deposit facilities to make large cash transactions to avoid direct contact with bank staff.
- Cash withdrawals that are inconsistent with legitimate business activity and are designed to break the audit trail.
- Cash businesses that do not deposit cash.
- Transactions that are consistently below any threshold limit required by law, regulation or Republic policy.

Use of Bank Accounts

- Multiple small deposits into different accounts which are subsequently consolidated into one account.
- Customers who have numerous accounts which involve inter-account transfers for no apparent business reason or which are used to divide large amounts of cash among each of them.
- Any individual or company whose account shows virtually no normal personal banking or business related activities, but is used to receive or disburse large sums which have no obvious purpose or relationship to the account holder and/or his business (e.g. a substantial increase in turnover on an account).
- Reluctance to provide normal information when opening an account or when asked for information about account activity, providing minimal or fictitious information or, when applying to open an account, providing information that is difficult or expensive for the financial institution to verify.
- Customers who appear to have accounts with several institutions in a nearby area and who consolidate those funds before requesting their transfer.
- Depositing large third party checks endorsed in favor of the customer.
- Large cash transactions in a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.
- Customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions.
- An increased use of safe deposit facilities and the deposit and withdrawal of sealed packets.
- Customers avoiding contact with the branch.
- Substantial increases in deposits of cash or negotiable instruments by a professional firm or company using customer accounts or trust accounts, as well as transfers between customer, company and trust accounts.
- Customers who decline to provide information that in normal circumstances would make the customer eligible for credit or for other banking services that would be regarded as valuable.
- An imprudent use of banking facilities, such as maintaining large balances in accounts which pay lower interest rates.
- Large number of unrelated parties making deposits into the same account without an adequate explanation.
- Customers who put business receipts directly into or make business disbursements from non-business accounts.

Use of Investment Related Transactions

- Accounts that appear to be clearing accounts, having high volume, high velocity, and low, constant, or overdrawn balances.
- Accounts that appear to be part of circle transactions in which funds originate from and are disbursed to the same person or controlled group.
- Customers whose transactions appear to break or confuse the audit trails normally maintained by legitimate businesses.
- Accounts whose checks appear to have been signed in blank, with the payee, date and amount entered in a different handwriting, ink or type.
- Purchases of securities to be held by the financial institution in safe custody, which appear inappropriate given the customer's known business or standing.
- Back-to-back deposit/loan transactions with branches, subsidiaries of, or affiliates of, financial institutions in known drug trafficking areas.
- Requests by customers for investment management services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's known business or standing.

International Activity

- Large or unusual settlements of securities in bearer form.
- Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.
- Customer introduced by a branch, affiliate or other bank based in countries where production or transshipment of drugs or drug trafficking may be prevalent.
- Use of Letters of Credit and other methods of trade finance to move money between countries where such trade is not consistent with the customer's usual business.
- Customers who make regular and large payments, including wire transactions, that cannot be clearly identified as bona fide transactions to, or receive regular and large payments from, countries which are commonly associated with the production, processing or marketing of drugs; proscribed terrorist organizations; or the laundering of money.
- Building up of large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held in another country.
- Unexplained electronic fund transfers by customers on an in and out basis or without passing through an account.
- Frequent requests for travelers checks, foreign currency drafts or other negotiable instruments to be issued.

**Use of Financial
Institution
Employees and
Agents**

**Secured and
Unsecured Lending**

- Frequent deposits of travelers checks, money orders, officer bank checks, third party checks or foreign currency drafts, particularly if originating from another country.
- Customers who request wires to be sent bank to bank, without designating the originator or ultimate recipient or who receive a significant number of wires which do not show the originator or by order of party.
- Incoming wire transfers under instructions to the bank to pay upon proper identification (PUPID).
- Changes in employee characteristics, e.g. lavish life styles or avoiding taking holidays.
- Changes in the performance of employees or agents e.g. the salesman selling products for cash has remarkable or unexpected increase in performance.
- Any dealing with an agent where the identity of the ultimate beneficiary or counterparty is undisclosed.
- Any employee who manages a significant number of accounts in which suspicious transactions occur.
- Changes in employee's banking activity.
- Customers who repay problem loans unexpectedly.
- Request to borrow against assets, where the origin of the assets is not known or the assets are inconsistent with the customer's standing.
- Request by a customer for a financial institution to provide or arrange financing where the source of the customer's financial contribution to the deal is unclear, particularly where property is involved.
- Loan proceeds that are disbursed in a manner or to a party that is inconsistent with the stated purpose of the loan.
- Loans with vague, unclear, or no stated purpose.
- Permanent financing loans with short life spans or short balloon payments.
- Loans that are paid from unknown sources or sources inconsistent with what is known about the loan customer.
- Requests for loans to offshore companies or loans secured by obligations of offshore banks.
- Loan proceeds channeled offshore.
- Loans, whether secured or unsecured, where the customer has no visible means of repayment.
- Loans against property where the proceeds are to be disbursed in another jurisdiction.

**Legal Process
Served on Accounts**

- Cash collateralized loans.
- Loans secured by third parties who have no apparent relationship to the borrower.
- Any account that is the subject of a subpoena, summons, seizure order, or other legal document production request from a government agency.
- Any account which is the subject or a referral to government authorities.
- Any account that is the source or recipient of a significant amount of funds relating to an account that is subject of legal process from a government agency.
- Any account that is controlled by a signatory on an account that is the subject of legal process from a government agency.

CASH TRANSACTIONS

Approval of Cash Transactions

Any exception to the cash deposit or withdrawal procedure must be approved by the senior manager of the location and have the unanimous consent to a written submission by the chairman of the board and the chairperson of the executive Know Your Customer committee.

Since the placement of cash is a primary goal of money laundering, cash transactions must be carefully scrutinized.

The most basic problem to the money launderer is to convert large amounts of cash received from unlawful activity into more manageable monetary instruments or other assets, which conceal its illicit origins. Criminal organizations need to convert the cash itself into a more easily transferable and manageable form. In order to complete the money laundering scheme of concealing the true source and ownership of the proceeds, the illicit proceeds must be laundered without leaving a recognizable audit trail.

Recognizing that large volumes of cash may draw immediate attention to their illegal source, criminals often physically remove the bulk cash from the location of its acquisition and structure transactions into smaller amounts.

Each Republic location must establish levels of authority for approving cash transactions. Where appropriate, cash receipts may be authorized, but only up to pre-established approval limits.

Approved cash transactions must be consistent with the nature of the customer's relationship with the bank, and must be fully documented so that any future investigation may be accomplished in detail.

The threshold amounts of cash that will be approved may vary from location to location. In no event, however, may cash over the equivalent of U.S.\$50,000 per customer per transaction be accepted or withdrawn without the approval of the senior manager of the location. The only exception to this rule relates to banknote transactions with approved banking counterparties in those locations at which banknote trading is an approved activity.

Large cash transactions other than deposits and withdrawals should not be allowed. Customers who want to negotiate or purchase non-deposit account transactions, such as loan payments, wire transfers,

CDs, securities, letters of credit must be required to have the transaction occur through an audit-trail account. A cash deposit must be made to an account before a customer may purchase an instrument, make a loan payment, or obtain a letter of credit.

Customer contact personnel may not accept cash from, or deliver cash to, anyone. A customer must deposit cash with, or withdraw cash from, a teller in person.

Monthly Reports

Each location will forward a monthly cash report to the compliance department in New York. This report will include a listing of all cash transactions over \$50,000, along with a short summary of the reason(s) for the transaction(s). In those jurisdictions that are unable to provide names of clients, a mutually agreeable coded system will be set up so that New York can monitor activity.

If the deposit or withdrawal of \$50,000 or more is made by a customer of another Republic unit, the senior manager will base approval of the transaction on the documented approval of the senior manager of the customer's local Republic unit.

Cash transactions for non-account holders are permitted only as set forth by procedures developed in each location.

Systems

Systems must be developed in each location to generate reports that capture large cash transactions as well as attempts to structure cash activity to avoid any internal restrictions or to avoid any government reporting requirements.

CHECK TRANSACTIONS

Monitoring Negotiable Instruments

Check transactions, while generally less subject to the extreme scrutiny required for cash transactions, must be subjected to some of the same criteria. It is important to distinguish between normal activity and activity which indicates a suspicious transaction. The volume of check activity must be gauged so that it is consistent with the nature of the customer's relationship with the bank, the nature of the customer's business, and the bank's guidelines regarding the undesirability of transactional accounts.

Moreover, certain check transactions are inherently suspicious. Third party checks, quantities of cashier checks, travellers checks, money orders, and in some locations, checks which do not indicate the identity of the account holder constitute suspicious transactions.

Transactions involving these types of negotiable instruments must be identified, examined and approved by account officers accepting the transaction. Any suspicious transaction should be immediately reported to the compliance officer.

Customers, especially retail institutions and correspondent financial institutions who accept these checks and clear them through Republic, must be contacted and advised of the dangers inherent in these transactions and their obligation to know their customers. Such accounts should be reviewed to make certain that the businesses do not function as cambios or check cashing services.

Each location must establish a threshold amount of check activity for each department in terms of number of transactions and total currency amount, or combination thereof, that will be reviewed by the Know Your Customer committee.

WIRE TRANSACTIONS

Wire transfers are probably the most important layering method available to money launderers. Wire transfers offer criminals many advantages as they seek to cover their trail. Speed, distance, minimal audit trail, and increased anonymity amid the enormous daily volume of fund transfers are all major benefits.

As with check transactions, the volume of wire activity must be gauged so that it is consistent with the nature of the customer's relationship with the bank and the nature of the customer's business.

Monitoring Wire Transfers

If a customer conducts or intends to conduct wire transactions on a regular basis, he or she must be advised that regulations have been enacted in the United States that require U.S. banks to provide specific information on the originator of a wire as well as the ultimate beneficiary of that wire.

Each location or business unit, in conjunction with its Know Your Customer committee, should determine the wire transfer activity over a certain amount and frequency which will be subject to ongoing monitoring by the account officer and Know Your Customer Committee.

COLLATERALIZED LOANS

Collateralized loans wherein the collateral is held in one jurisdiction and the loan is made from another serve a legitimate business function and make certain transactions, which may be unacceptable due to credit risk, bankable. However, such loans, when conducted in certain ways have become the preference of money launderers.

Customer contact personnel may not advise customers with regard to advantageous tax structuring or tax avoidance. If a customer has a tax question, he or she must be asked to refer the question to a qualified tax attorney or accountant.

Collateralized loans raise different legal issues depending on the jurisdiction of the loan. Foremost among these issues is propriety and implications of silent guarantees. Unless a jurisdiction specifically permits loans with silent guarantees, Republic will not grant such loans. In other words, all parties guaranteeing the loan must be officially noted on the books of the unit granting the credit facility.

In those jurisdictions that permit the practice of silent guarantees, a letter opinion from outside counsel to this effect must be sent to head office and kept on file.

In all cases, the Republic location that has the asset guaranteeing the loan must make sure that the Know Your Customer profile is completed in a satisfactory manner and updated annually. Before issuing the guarantee, senior management or a department head of the location having the asset guaranteeing the loan must review the Know Your Customer profile, determine if the request for the loan is consistent with the nature of the customer's business, and tell the location issuing the loan that the Know Your Customer profile has been satisfactorily completed.

The location that is issuing the loan must know the purpose of the loan and must complete a Know Your Customer profile for the borrower. If the loan proceeds are going to another country, the location granting the loan must obtain the reason for such transaction. Additionally, it must review how payments for the loan are made and know the reason for and source of substantial unanticipated reductions.

Some key questions include the following:

- How long has the deposit been on account?
- What is the purpose of the loan?
- Where loan proceeds are destined?
- When and how loan is to be repaid?
- Are interest rates tied?
- Is interest, in addition to the principal, securing the loan? (In some jurisdictions, this may raise tax problems.)

REPRESENTATIVE OFFICES

Activities of the Republic representative offices are limited by U.S. government regulation. They are allowed to solicit business on behalf of the parent bank or act as an administrative liaison between the parent bank and the customer. However, representative offices are not authorized to accept deposits, pay checks, lend money or conduct any cash transactions.

FLASH ALERTS

All Republic units must report any information relating to improper activities, whether or not they involve customers or suspect individuals or entities, to the compliance department in New York for circulation to all other units. The compliance department can be reached by telefax number (212) 525-6509 or the following telephone numbers (212) 525-6704, 6692, 8327, 8629 or 8850.

Reporting units must provide the compliance department with as much information as possible concerning the identity of the individual or entity (such as, birth date, address or tax identification number) and the reason for concern or suspicion. The compliance department will immediately seek the approval of head office counsel and thereafter notify all Republic units.

Each location must immediately determine whether the subject of the flash alert is known to the unit and forward a response to the compliance department indicating that it acknowledges receipt of the alert.

Where feasible, a master listing of all names reported on the flash alert system should be provided to operational staff in account opening or document control functions. At the time of opening a new account, such staff should document that the account name is not listed on the flash alert master report. In locations where this procedure is not feasible, quarterly searches of customer records should be conducted to determine if a new relationship exists with any of the flash alert names. Any new information regarding a flash alert name should be forwarded immediately to the compliance department in New York.

COMPLIANCE WITH LOCAL REGULATIONS/ AUTHORITIES

All Republic locations must comply with any official subpoenas and search or seizure warrants after verifying their accuracy and genuineness.

The legal department in New York must be notified immediately when a government subpoena is served. Domestic retail branches must contact the control department upon receipt of any serving. Representative offices must notify head office of all legal servings.

Each location must designate a limited number of individuals who are authorized to contact and respond to local authorities.

Disclosure of the existence of a legal serving should not be made without direction from the control, compliance or legal departments.

MAINTENANCE OF RECORDS

Account records, including the account opening forms signed by the client, documents identifying the customer and, if different, the beneficial owner of the account and records of account transactions, must be retained for at least five years after the relationship with the customer has ended. Records must be held for longer periods of time if required by local laws or if circumstances so dictate.

NON- DISCLOSURE

Employees shall not disclose to the client or to third parties that any criminal investigation is being carried out or that information has been provided to authorities unless authorities so allow.

INTERNAL AUDIT

Each location must define a program of work to be followed by internal auditors to verify implementation of the Know Your Customer program.

PART III - TRAINING

Each Republic location must provide Know Your Customer training to all customer contact employees, traders, operations personnel and management at least annually. More frequent training is required whenever there are changes to local laws and regulations or Republic practices.

It is of critical importance that all training be documented. Following each training effort, the location must prepare a file memorandum indicating the date training was offered, who attended and the format of the training session. A copy of the memorandum must be forwarded to the Compliance Department in New York.

It is essential to know our employees as well as, if not better than, we know our customers. All new employees, consultants and representatives must be trained in Republic policy and procedures before undertaking their respective responsibilities.

PART IV EXCEPTIONS

Unless explicitly stated otherwise, exceptions to this policy must have the written approval of senior management of the location and head office management. Approval of head office management is defined as the unanimous consent to a written submission by the division head, chairman of the board and the chairperson of the executive Know Your Customer committee in New York.

Revised July, 1996